

Distributing Direct Costs, Direct Support Costs, and Indirect Costs

Direct costs are charged to appropriate programs and projects, and direct and indirect support charges are subsequently distributed from support service programs to the various user programs. This accounting procedure provides the means for assessing the fiscal impact of operating such programs and projects. Such cost identification is critical to the development of a meaningful cost-reporting system for use by state and local decision makers.

Methods of allocating direct costs and distributing direct support charges and indirect charges are presented herein for determining total program costs.

Direct Costs

Direct costs are those expenses that may be charged directly as part of the cost of a product or service to all instructional programs, special projects, services to school districts' programs, support service programs, auxiliary programs, facilities, and other outgo programs.

All direct costs charged to programs are classified as objects of expenditure. (See the classification of objects of expenditure on pages 401-5 through 401-27. See also Exhibit 701-1, "Object of Expenditure Codes, by Major Program," on pages 701-20 through 701-25.)

Direct costs should be charged to the program with which the cost is most clearly identified. Examples of costs easily identified with a particular program are teachers' salaries, psychologists' salaries, bus drivers' salaries, and textbooks.

Other direct costs that may not be so easily assigned to specific programs, such as employee benefits, substitute teachers' salaries, miscellaneous instructional supplies, and in-house equipment repairs, may be charged to holding (suspense) programs for subsequent reallocation to user programs.

The costs of services that are used by multiple programs, such as duplicating and reproduction services, should be recorded as direct costs to each user program.

Proration of Direct Costs

Two kinds of direct costs require proration—those charged to a holding program for subsequent reallocation and those split between two or more programs at the time of initial charge.

Proration of Costs in Holding Programs

A holding program is a suspense account that holds costs until they are assigned to the appropriate user program. Such costs may include substitute teachers' salaries, employee benefits, miscellaneous instructional supplies difficult to assign directly because they are lump-sum payments, and in-house equipment repairs for which no documentation system is available.

Substitute teachers' salaries. The two methods of prorating substitute teachers' salaries are by actual substitute assignments and by number of certificated teaching personnel:

Actual substitute assignments. This method of prorating salaries provides that costs of short-term and long-term substitute teachers be charged to the programs in which the teachers actually substituted. Records of the program assignments must be maintained for each teacher, and the costs must be allocated accordingly. The charges may be made directly to the appropriate programs or distributed monthly from a holding program.

Number of certificated teaching personnel. This method of prorating the costs of short-term and long-term substitute teachers is based on the number of certificated teaching personnel eligible to serve as substitutes. Because the salaries of substitutes may be considered as a normal cost of all programs, both long-term and short-term substitutes' salaries may be charged to all programs on a pro rata basis.

When either of the two proration methods or a combination of the two is used, collection of the costs by site may be preferred so that the proration is relative to experience at each site.

Employee benefits. For employee benefits that are not automatically distributed, a holding program for employee benefits should be established (e.g., the personnel program might be used). The proper object of expenditure is used with the initial charge to the holding program.

Miscellaneous instructional supplies. Miscellaneous instructional supplies not identifiable to an instructional program at the time of their purchase should be charged to a holding program (using the appropriate subclassification of Object 4300) in either the instructional administration or instructional media program for subsequent distribution. The cost of these miscellaneous supplies should be distributed monthly to the

instructional program on the basis of actual use of the full-time-equivalent teachers method.

In-house equipment repair costs. Districts performing in-house equipment repairs for which no work-order system exists to distribute the charges to user programs should accumulate the costs in a holding program. A subsequent distribution based on the classroom units method using the contra account methodology should then be made.

Proration of Salaries for Personnel Working in Two or More Programs

Salaries of personnel working in two or more programs are prorated on the basis of time spent in each program as determined from their employee time reports.

Distributions of direct costs that may be used in lieu of actual time accounting are the following:

1. The costs of assistant superintendents for instruction (or equivalent positions) having first-line responsibility for delivery of the services of this instructional program and for participation in district/county policy may be charged as direct costs at 50 percent to the instructional administration program and 50 percent to the district/county other administrative costs program.
2. For small school districts that have one person performing the function of both the principal and the superintendent, 70 percent of the costs may be charged as direct costs to the principal's function (school administration) and 30 percent as direct costs to the superintendent's function (district superintendent's costs).
3. For county offices of education in which one person performs similar activities in the services to school districts programs and support services programs, 50 percent of the costs may be charged as direct costs to each function.
4. The costs of the county superintendent of schools and the county board of education may be charged as direct costs at 50 percent to the general administration program within the services to school district's function and 50 percent to the county board's/superintendent's costs within the general support services function.

Determination of Adjusted Direct Costs

The initial charges reported for special projects include all costs for special projects. The Annual Program Cost Data Report (J-380/580) adjusts funded costs that are not instructional activities but are support service activities from special projects to the appropriate support service programs. In addition, costs that are instructional activities and directly related to special projects are adjusted from instructional programs to the

appropriate special projects. The adjusted costs, combined with the initial charges, become the adjusted direct costs for all programs and projects.

Direct Support Costs

Direct support costs are direct costs for services or products in support of other programs. The programs that receive the services of support are defined as user programs. Direct support costs are accumulated in various support service programs and then distributed to user programs as direct support charges (e.g., instructional administration costs distributed to the regular education K–12 program).

To comply with the requirements of the Annual Program Cost Data Report (J-380/580) and with certain requirements of other reports for which this information is required, school districts and county offices shall distribute direct support costs to the following categories of user programs:

1. Instructional
2. Special Projects
3. Services to School Districts (county offices only)
4. Auxiliary

Complete distribution. All direct support costs for the following support service programs must be distributed to the user program(s) listed above:

1. Instructional administration (EDP No. 375)
2. Instructional media (EDP No. 380)
3. School administration (EDP No. 385)
4. Pupil services (EDP No. 395)
5. Special projects administration (EDP No. 398)
6. Pupil transportation (EDP No. 415)

Partial distribution. Any costs designated as direct support for the following support service programs must be distributed to the user program(s) noted previously:

1. Centralized data processing (EDP No. 402)
2. Plant maintenance and operations (EDP No. 408)
3. Facilities, rents, and leases (EDP No. 467)

The residual (remaining) costs in the support service programs are distributed as indirect costs.

Exceptions. Although most cost distributions occur from support service programs to user programs, an exception exists in auxiliary programs. The food services program (EDP No. 455) is a user program subject to the distribution of direct support costs to

other user programs. For example, the direct costs of special preschool meals are initially charged to the food services program and then distributed as direct support charges to the preschool program.

Distribution of Direct Support Costs

Direct support charges may be distributed by the following methods:

1. Allocated method
2. Documented method

The allocated method of distributing direct support costs to user programs is limited to specific methodologies for each of the support service programs. The intent of limiting the allocation methodologies is to ensure consistent, comparable cost data information through the application of uniform cost allocation method.

The documented method can be used when use of the allocated method does not reflect a reasonable distribution of direct support costs to user programs.

Allocated Method

The allocated method is used to distribute any remaining (or all) direct support costs not distributed using the documented method.

The amounts to be allocated will be computed by one of the following methods:

1. Full-time-equivalent (f.t.e.) teachers method
2. Classroom units method
3. Number of pupils transported method
4. Ratio of costs method

Full-time-equivalent teachers method. The basis of this allocation method is the number of f.t.e. teachers serving (assigned) in each program. An assignment is a specific responsibility, classroom assignment, or course section taught.

All personnel providing instructional services to students should be included in the f.t.e. count. Assistant teachers (certificated or classified) should be included if they carry active student registers and their services generate average daily attendance (ADA). Certificated and classified employees providing special education services and carrying active student registers should also be included in the f.t.e. count.

Full-time equivalency is determined on the basis of the number of hours that constitute a full-time teaching assignment (that includes actual instruction of students) for the school district. The four categories of assignments are listed as follows:

1. Single assignment—A full-time teacher assigned to a single program is counted as one f.t.e. unit in the assigned program.
2. Split assignment—The f.t.e. for a full-time teacher assigned to two or more programs is split between the assigned programs on the basis of the teacher's contract hours in each assignment. For purposes of determining the number of f.t.e. units to be allocated to each assignment, preparation periods, supervision, noon duty, individualized educational program (IEP) assessments, and other ancillary assignments are to be disregarded in the f.t.e. calculation. Study halls are considered a regular class assignment.
3. Semester assignment—Full-time teachers who are in programs of one semester or less should be counted as 0.5 f.t.e. unit. Full-time teachers in programs of more than one semester should be counted as one f.t.e. unit.
4. Part-time assignment—Full-time equivalency for part-time teachers is based on the ratio of their assignment hours to the number of hours that constitute a full-time teaching assignment for the school district.

Counts of f.t.e. teachers are developed by totaling the computed number of f.t.e. teacher units in all instructional programs and special projects. Include in the count those teachers who are assigned to programs operated in the district but who are not employed by the district (e.g., those in special education or regional occupational centers/programs (ROCs/Ps) classes in which the teachers are paid by the county office). The latter f.t.e. counts are to be recorded in the nonagency activities educational program.

The f.t.e. teacher count may be developed any time after classes have been established for the second semester. The f.t.e. teacher count should be developed as of April 1 of each year to coincide with the special education counts also taken at that time. In a large district the most efficient way to compile the total f.t.e. units may be to have each administrator complete a count and then to combine the information into a composite work sheet. Care must be taken to ensure that the same f.t.e. units are not reported by more than one site administrator.

Classroom units method. The basis of this allocation method is units of space, one unit representing a classroom. A classroom unit (CU) represents the approximate area usually occupied by a classroom. A CU varies from 800 to 1,100 square feet (74 to 102 square meters) but generally averages about 960 square feet (89 square meters). It is assumed that commonly used floor spaces, such as school offices, corridors, restrooms, and faculty rooms, benefit each class in proportion to the floor space occupied by the classroom. Therefore, they are not included as separate items.

Large spaces (cafeterias, gyms, and so on), small spaces (cubicles for speech therapy and so on), and district administration facilities are converted to CUs on the basis of 960 square feet (89 square meters) per unit. In addition, CUs shared by two programs are allocated to both programs on the basis of the percentages of hours the room is used by each program.

Note: Classroom units for noninstructional programs occupying space in district administration facilities are reported as part of district administration.

Operational buildings, such as maintenance shops, warehouses, and transportation facilities, generally require approximately one-third the amount of maintenance and upkeep service required for spaces used for students and other services. These spaces should be divided by 2,880 square feet (960 x 3) (212 square meters) to establish CUs. Operational buildings would generally not include partially enclosed spaces (such as sheds or patios).

Counts of CUs are developed by totaling the computed CUs for all instructional, special projects, services to school districts, district administration, plant maintenance, plant operations, pupil transportation, community services, food services, child development activities, and nonagency activities programs. Amounts allocated to the district administration and plant maintenance and operations programs using CUs will remain in the indirect support pool.

Number of pupils transported method. The basis of this allocation method is the number of pupils transported (PTs), which is determined by counting the number of pupils in each program transported from home to school. This information represents the number of pupils, not the number of trips, and should be available from the district's records. The total number of PTs must equal the total reported on Schedule I, Item B-1, Form J-141, "Annual Report of Pupil Transportation Expense."

Special education pupils receiving home-to-school transportation may be counted in the special education transportation program only if home-to-school transportation is required in the children's IEPs. Otherwise, these children will be counted as regular students.

Pupils who receive home-to-school transportation to attend schools *other than their neighborhood schools* because of requirements of their IEPs should be counted as special education PTs. Such pupils receiving home-to-school transportation to attend their neighborhood schools should be counted as regular education PTs.

Excluding factors (f.t.e., CU, and PT). The allocated method of distributing direct support costs is generally based on the assumption that all programs use some portion of

each of the support service programs. If a portion of a program does not use a support service, the factor count for the nonuser portion of the program is to be excluded from the total factor count for that support service program. Exclusion of any portion or all of a program from an allocation formula would be an exception and would mean that certain documentation exists to substantiate the exclusion. Minimum documentation of an exclusion would consist of verification by the administrator of the user program that any portion or all of the program did not use any part of a specific support service program. In addition, it is suggested that the exclusion be confirmed by the support program's administrator.

Ratio of costs method. The basis of this allocation method is the ratio of the adjusted direct costs for the special projects administration program to the adjusted direct costs for all special projects using this support service program.

Documented Method

The documented method is an option for distributing direct support costs. According to this method costs must meet both of the following criteria:

1. The specific costs would not occur if the user program were discontinued.
2. The costs must be supported by auditable documentation. Auditable documentation requires that time reports and contemporaneous records of activities be maintained.

The documented method must be used to accumulate and distribute all pupil services costs associated with special education assessment activities.

Documented direct support may be used to present direct support costs that, when combined with a program's or project's direct costs, may produce the marginal or variable costs for the program or project.

Use of the documented method to distribute the costs of a product or a service (e.g., a position or a service contract) requires that all costs for that product or service be distributed as documented support costs.

Documentation of Support Services to User Programs

Use of the documented method is authorized for distribution of the costs of the following support service programs to user programs:

1. Instructional administration
2. School administration (limited applications)
3. Pupil services

4. Special projects administration (limited applications)
5. Centralized data processing
6. Plant maintenance and operations (limited applications)
7. Pupil transportation (limited applications)
8. Food services (limited applications)
9. Facilities—Rents and leases (limited applications)

Documentation Requirements

Use of the documented method to distribute support services' costs requires the maintenance of specific records by support service staff. Support costs distributed as documented direct support, whether to single or multiple programs, require at least the following documentation:

Personnel costs (employee's activity work sheet and special education assessment activities work sheet). An activity work sheet must be completed only if the employee's time is to be distributed as a cost of documented direct support. Use of an activity work sheet to report time spent in various programs means that the employee must be able to substantiate the information that is reported. This substantiation consists of contemporaneous documentation, such as appointment calendars, clients' records, and notices of meetings. Such documentation must be retained by the school district or the county office for a minimum of three years after the year of audit.

Employees working in more than one function or position will need to maintain time-accounting records for each support function (e.g., an employee working half-time as a project director and half-time as a psychologist). Employees working part-time in a teaching position and part-time in a support position will also need to maintain an activity work sheet to record the time spent in the support function and that spent in the teaching function.

Activity work sheets should not be completed by clerical staff. The costs of their services are included with the support service costs to be distributed.

Employee's activity work sheet. This form must be used by personnel working in support positions whose time is to be documented. A district may develop its own form and incorporate additional information desirable for local needs. Any district-developed form must include as a minimum the following specific elements:

Reporting frequency. An employee's activity work sheet must be completed at least monthly and filed with the business office.

Information to be reported. The following basic information must be recorded for each employee working in a support function:

1. Name of the school district
2. Employee's name
3. Employee's position/title
4. Period covered by the work sheet
5. Signature of the employee
6. Signature of the employee's supervisor
7. Work activity information

For employees assigned to a single program or category, record the name/description of the program or activity. An employee's activity work sheet will provide the minimum documentation when the entire assignment is in support of one program or project.

Employees who are assigned to support positions that serve more than one program should record the following:

1. Name/description of the program or activity
2. Dates worked
3. Hours worked

Record only actual hours worked (these hours will be used as the basis for distribution of costs to the programs). Include overtime hours worked (whether paid or unpaid). Exclude time off (vacation, sick leave, and any other time off). Report to the nearest quarter hour any time worked that is less than one hour. Minimum documentation includes a summary time sheet plus contemporaneous records that detail the time spent on each task for each program.

Activities work sheet for special education assessment. All pupil services staff performing special education assessments must complete such a form for any time they spend on special education assessment activities. This time will be recorded as documented direct support to (1) the special education subprogram, assessment costs; or (2) the services to school districts subprogram, special education assessment costs. A district may develop its own form and incorporate additional information it deems desirable for local needs. Any district-developed form must include as a minimum the specific elements listed below:

Reporting frequency. Work sheets for special education assessment activities must be completed at least monthly and filed with the business office.

Information to be reported. The following basic information must be recorded for each employee working in a support function:

1. Name of the school district
2. Employee's name
3. Employee's position/title
4. Period covered by the work sheet

5. Signature of the employee
6. Signature of the employee's supervisor
7. Work activity information

Record only actual hours worked (those hours will be used as the basis for distribution of costs to the programs). Include overtime hours worked (whether paid or unpaid). Exclude time off (vacation, sick leave, and any other time off). Report to the nearest quarter hour any time worked that is less than one hour.

The minimum documentation requirements include a summary time sheet and contemporaneous records that detail the time spent on each special education assessment task and the name of the student being assessed. If the task involves consultation, record the name of the persons who were consulted. This information may be recorded in the employee's time calendar or equivalent record.

Nonpersonnel costs. Nonpersonnel costs charged as documented direct support must be substantiated by documentation that identifies the program(s) that received the service, supply, or equipment. The signature of a program administrator acknowledging receipt of the service, supply, or equipment on a document, such as an invoice, a requisition request, a purchase order, a receiving report, a contract, or an inventory listing of equipment, will validate the charge.

Distribution of Documented Direct Support

The monthly activity work sheets will be used to determine employees' activities on an annual basis for distribution of the annual costs.

To develop the distribution of the documented direct support costs, record the actual hours worked in each program during the fiscal year (as reported on the monthly activity work sheets). Determine a proration by computing a ratio of the time spent in each program to the total time worked. Distribute the support service program costs based on the computed proration. The same proration will be applied to all costs associated with the support activity, including the cost of clerical staff.

Methods of Distributing Direct Support Costs to User Programs

Unless the documented method is authorized and used for a particular support service program, the support service costs must be distributed by means of the allocated method as specified for that support service program. Direct support costs shall be transferred to the user program through the use of an interprogram charge and credit transfer.

Support Services Programs

Instructional administration. All costs of the instructional administration program shall be distributed to user programs as direct support charges. The documented method may be used to distribute instructional administration costs when the criteria of the documented method are met. All remaining costs of instructional administration shall be allocated on the basis of the f.t.e. teachers method.

Instructional media. All costs of the instructional media program shall be distributed to user programs as direct support charges and allocated on the basis of the f.t.e. teachers method. The documented method *may not* be used to distribute instructional media costs.

<p><i>Note:</i> Specific or special materials used exclusively in a program or project and not as a part of the central library are charged as a direct cost to that program/project as instructional supplies.</p>

School administration. All costs of the school administration program shall be distributed to user programs as direct support charges. The documented direct support method may be used to distribute school administration costs of a school site offering one program only (e.g., all special education or all ROC/P) when the criteria of the documented method are met. All remaining school administration costs shall be allocated on the basis of the f.t.e. teachers method.

Pupil services. All costs of the pupil services program shall be distributed to the various user programs as direct support charges. The documented direct support method may be used to distribute pupil services costs when the criteria of the documented method are met.

The costs of special education assessment services must be distributed by means of the documented method to the special education subprogram, assessment costs (the criteria of the documented method must be met). All remaining pupil services shall be allocated on the basis of the full-time-equivalent teachers method.

Special projects administration. All costs of the special projects administration program shall be distributed to user programs as direct support charges. The documented method may be used to distribute the costs of special projects administration when the criteria of the documented method are met. All remaining costs of special projects administration shall be allocated on the basis of the ratio of costs method.

District/county administration, board/superintendent costs. Costs of the board and superintendent (including clerical support) shall never be distributed as direct support charges. However, this program may receive direct support charges, such as those for plant maintenance and operations or rents and leases facilities.

District/county administration—All other costs. All costs of district/county administration shall remain in the indirect support pool to be distributed as indirect costs.

Centralized data processing. The costs of centralized data processing services may be distributed as documented direct support when the criteria of the documented method are met. Any cost not distributed as documented direct support shall remain in the indirect support pool to be distributed as indirect costs.

Plant maintenance and operations. Generally, the costs of plant maintenance and operations are considered agencywide costs of doing business and are, thus, shared equitably by all programs. No program should reflect a disproportionate share of those costs because it happens to be assigned to classrooms or facilities that incur high costs of plant maintenance or operations or both.

Most costs for the plant maintenance and operations program are distributed to user programs as direct support charges. The only costs not distributed as direct support costs are those applicable to administration that remain in the indirect support pool to be distributed as indirect costs.

The documented method *may not* be used to distribute costs of plant maintenance and operations, except as follows: County offices may use the documented method to distribute the costs of plant maintenance and operations for specialized single-program sites or specialized single-program buildings to the user program.

All other costs of plant maintenance and operations shall be allocated to user programs on the basis of the classroom units method. Plant maintenance and operations costs allocated to the district administration and plant maintenance and operations or centralized data processing programs shall remain in the indirect support pool to be distributed as indirect costs.

Pupil transportation. All costs for the pupil transportation program shall be distributed to user programs as direct support charges as follows:

Other than home-to-school. The documented method shall be used to distribute transportation costs for other than home-to-school pupil transportation (i.e., related services) by means of one of the following methods: (1) actual costs from the bus contractor; and (2) fixed rate per mile plus paid driver's layover time. All charges for pupil transportation services to organizations outside the district (parent-teacher associations, recreation districts, and so on) shall be made to the appropriate auxiliary programs as costs of documented direct support.

Home-to-school. The costs for home-to-school pupil transportation shall be distributed by means of one of the following methods:

1. Specific use. The documented method may be used to distribute the entire cost of operating a vehicle that is used entirely for a specific program (e.g., special education or desegregation) to that specific user program. Detailed cost records (work orders, contracts, and so on) and detailed riders' logs must be maintained.
2. Remaining home-to-school costs. All other home-to-school costs from other support service programs and costs of operating vehicles not distributed under specific use criteria (see number 1) must be allocated to all user programs on the basis of the number of pupils transported method.

Auxiliary Programs

Community services. Costs of community services shall never be distributed as direct support charges. However, this program may receive direct support charges, such as those for plant maintenance, plant operations, and pupil transportation.

Retiree benefits. Benefits paid on behalf of retired personnel shall not be subject to direct support charges from other programs, nor shall they be distributed as direct support charges.

Food services. Costs of donor-authorized food services shall be reported as direct costs to the special project and as an adjusted direct cost to the food services program. Food services costs identified as direct support costs to specific user programs shall be distributed by means of the documented method. All other expenditures shall remain in the food services program. However, this program may receive direct support charges, such as costs of plant maintenance and plant operations.

Child development activities. Costs of child development activities shall never be distributed as direct support charges. However, this program may receive direct support charges, such as costs of plant maintenance and operations and food services.

Nonagency activities. Costs of nonagency activities shall never be distributed as direct support charges. However, this program may receive direct support charges, such as costs of instructional support and plant maintenance and operations.

Facilities

Rents and leases. All costs of leased or rented facilities shall be distributed as direct support charges. Generally, costs of leased or rented facilities are considered as agencywide costs of doing business and thus are shared equitably by all programs.

The documented method *may not* be used to distribute the costs of leased or rented facilities, except as follows:

The documented method may be used to distribute only costs of renting or leasing a facility required by state or federal agencies for programmatic purposes on a site on which no agency-owned facilities are located. Certification of the requirement is necessary. For example, a school district leases a facility to house ROP classes. The facility is near a shopping center at which most of the students are being trained. However, because housing the ROP classes rather than other program classes in the rented facility was a district administrative decision and not a state or federal requirement, the cost of the lease payments would be distributed to all district programs as allocated support costs. (The leased classrooms would be included as ROP classrooms in the distribution.)

On the other hand, a county office leases a classroom from a school district to house a special education class. The action is necessary for programmatic purposes because the special education class is required by the state to be conducted at a regular school site for mainstreaming purposes. The county office owns no regular education schools at which the class could be located. The payments would be distributed as documented direct support costs to the special education program.

All other costs of facilities rents and leases shall be allocated to user programs on the basis of the classroom units method. Facility rents and leases allocated to district administration, plant maintenance and operations, or centralized data processing shall remain in the indirect support pool to be distributed as indirect costs.

All other costs. Facility costs other than rents and leases shall never be distributed as direct support charges. However, this program may receive direct support charges from centralized data processing.

Other outgo. Other outgo shall not be subject to direct charges from other programs, nor shall it be distributed as direct support charges.

Indirect Costs

Indirect costs are those costs of general management (i.e., activities that are for the direction and control of the local educational agency's [LEA's] affairs) that are agencywide. General management costs consist of expenditures for administrative activities necessary for the general operation of the LEA (e.g., accounting, budgeting, payroll preparation, personnel management, purchasing, data processing). Also included in indirect costs is a proportionate share of plant maintenance and operations and facilities rents and leases attributable to the administrative activities on the basis of space occupied. Excluded from indirect costs are the expenditures for the LEA's governing board and superintendent and their clerical staffs (EDP No. 401).

LEA indirect cost expenditure data from the Annual Program Cost Data Report (J-380/580) are used for program cost accounting purposes and in determining indirect

cost rates. The same base formula is used for both purposes, with an added calculation used to determine the indirect cost rate.

According to the formula the indirect costs (numerator) are divided by the direct and direct support costs (denominator) to determine a percentage used to distribute indirect costs to all instructional programs, special projects, programs of services to school districts, and auxiliary programs for the purpose of determining total program costs. In the calculation of an indirect cost rate, the indirect costs determined by the formula are further adjusted by an amount from a carry-forward computation.

Calculating the Numerator and the Denominator of the Formula

Expenditures are categorized as indirect or base (direct/direct support). If costs do not fit either of these categories, they are considered other costs (e.g., debt services, facility construction) and are excluded from the calculation.

- (a) The numerator of the formula is the sum of the following indirect costs:

Other Administrative Costs (EDP No. 400)
Centralized Data Processing (EDP No. 402)
Plant Maintenance and Operations¹ (EDP No. 408 in the J-380/780; EDP No. 407 in the J-580)
Facilities—Rents and Leases¹ (EDP No. 467)

- (b) Base costs (direct/direct support costs) are almost all of the remaining costs of the LEA. Examples of base costs include teachers' salaries, benefits, instructional supplies, contracts for services, board and superintendent costs, and data processing costs distributed to non-administrative programs. Besides the General Fund, expenditures from three other funds (Adult Education, Cafeteria, and Child Development) are included. All other funds are excluded.

The base costs are the denominator of the formula and are the sum of the following category totals, representing the programs that benefited from the indirect services:

Instructional Programs (EDP No. 270)
Special Projects (EDP No. 370)
Services to School Districts (EDP No. 423, applies only to offices of the county superintendent of schools)
Auxiliary Programs (EDP No. 465)
Board/Superintendent Costs (EDP No. 401)
Adult Education Fund (EDP No. 602)

¹ Includes only the portion applicable to other administrative costs, centralized data processing, and plant maintenance and operations.

Cafeteria Fund (EDP No. 603)
Child Development Fund (EDP No. 604)

- (c) The formula follows: The numerator (a) divided by the denominator (b) equals the percentage used to distribute indirect costs.

Distribution of Indirect Costs

To determine total program costs (program cost accounting), each school district and county office shall distribute indirect costs to all instructional programs, special projects, auxiliary programs, and programs of services to school districts by county offices. The indirect costs are distributed proportionately by means of the percentage determined by dividing the indirect costs by the base (direct/direct support) costs. (The formula for computing the percentage used in the distribution appears on the lower left side of the certification page of the Annual Program Cost Data Report [J-380/580].)

Indirect Cost Rate

To bring California's indirect cost allocation plan for LEAs into compliance with federal regulations, the California Department of Education (CDE) worked with school districts, county offices, and the United States Department of Education (USDE) to select a federally approved method for LEAs to use in calculating indirect cost rates. In 1996 USDE approved a fixed with carry-forward (FWCF) method for calculating indirect cost rates for California's LEAs. Under the FWCF indirect cost rate methodology, a rate is computed and fixed for a specific period based on an estimate of that period's level of operations. When the actual costs of that period become known, the difference between the estimated indirect costs and the actual indirect costs is carried forward as an adjustment to a subsequent period for which a rate is established. CDE has been delegated the authority by USDE to calculate and approve the indirect cost rates annually for school districts and county offices.

Calculating the Rate

Building on the formula used to calculate the percentage for distributing indirect costs, the components of the FWCF computation are added to the formula to calculate the indirect cost rate. Estimated indirect costs are calculated by multiplying the indirect cost rate approved for the period times the actual base costs of the period. Then those estimated indirect costs are compared with the actual indirect costs of the period. The difference between the two costs is the adjustment that is carried forward to affect the rate to be used in the second succeeding fiscal year. (The calculation of the FWCF indirect cost rate appears on the lower right side of the certification page of the Annual Program Cost Data Report [J-380/580].)

Use of the Rate

Once approved by the CDE, the FWCF indirect cost rate may be used, as appropriate, to budget, allocate, and recover indirect costs for federal programs, grants, and other assistance governed by the *Office of Management and Budget Circular (OMB) A-87*, the *Education Department General Administrative Regulations (EDGAR)*, and the *Code of Federal Regulations (CFR)*, Title 34. The rates may also be used for state programs where allowable, subject to any restrictions that may govern the individual programs. A rate calculated from expenditure data from one fiscal year is applied to programs in the second succeeding fiscal year (e.g., a rate calculated from 1998-99 expenditures is applied to programs in the 2000-01 fiscal year).

Accounting Entries for Support Costs

Distribution of direct support costs. Interprogram charges and credit transfers are used to transfer direct support charges from the support service programs to the instructional programs, special projects, programs of services to school districts, auxiliary programs, and other funds. The transfers may be identified or coded in several ways, particularly for electronic processing. Four examples are given below that may be used to transfer such items as salaries of elementary principals, vice-principals, and clerks; employee benefits; and office supplies from school administration to direct support costs of the general education regular program.

Example 1. Use Object 7300, Direct Support/Indirect Costs:

7310 General Education, Regular (School Administration)—Debit
7340 School Administration (General Education, Regular)—Credit

Example 2. Establish a direct support code, using the first two digits of the object code with 98 as the last two digits for the debit and with 99 for the credit:

1298 General Education, Regular (School Administration)—Debit
1299 School Administration (General Education, Regular)—Credit

Example 3. Establish a direct support code, using the first two digits of the object code with a notation in letters for the last two digits, such as *DD* for the debit and *DC* for the credit:

12DD General Education, Regular (School Administration)—Debit
12DC School Administration (General Education, Regular)—Credit

Example 4. Use a code system preceding the object of expenditure and assign code numbers to each type of support service program and to the respective debit and credit codes as follows:

0100 Instructional Support

- 0110 Instructional Administration—Debit**
- 0115 Instructional Administration—Credit**
- 0120 Instructional Media—Debit**
- 0125 Instructional Media—Credit**
- 0130 School Administration—Debit**
- 0135 School Administration—Credit**

0200 Pupil Services

- 0210 Attendance/Welfare—Debit**
- 0215 Attendance/Welfare—Credit**
- 0220 Guidance/Counseling—Debit**
- 0225 Guidance/Counseling—Credit**
- 0230 Health—Debit**
- 0235 Health—Credit**

0300 Special Projects Administration

- 0310 Special Projects Administration—Debit**
- 0315 Special Projects Administration—Credit**

0400 General Support

- 0410 District/County Administration—Debit**
- 0415 District/County Administration—Credit**
- 0420 Centralized Data Processing—Debit**
- 0425 Centralized Data Processing—Credit**
- 0430 Plant Maintenance—Debit**
- 0435 Plant Maintenance—Credit**
- 0440 Plant Operations—Debit**
- 0445 Plant Operations—Credit**
- 0450 Transportation—Debit**
- 0455 Transportation—Credit**

0600 Facilities

- 0610 Facility Acquisition and Construction—Debit**
- 0615 Facility Acquisition and Construction—Credit**

The following method will help to identify the source of the transfer along with a brief description of the action:

0130 General Education, Regular (School Administration)—Debit

0135 School Administration (General Education, Regular)—Credit

Distribution of indirect support costs. Only the methods illustrated in Example 1 and Example 4 may be used to distribute indirect support costs. In Example 1, change the description in codes 7310 and 7340 to Indirect Costs. Example 4 requires the addition of codes 0700, Indirect Costs; 0710, Indirect Costs—Debit; and 0715, Indirect Costs—Credit. In either case all the instructional programs, special projects, programs of services to school districts, and auxiliary programs shall be debited in the manner described for computing the indirect costs, and each support service program (general support) shall be credited with the remaining amount after all direct support charges are distributed.

Within-Fund and Between-Fund Support

Within a fund all direct support and indirect support debit and credit transactions must net to zero. For that reason at the fund level the 7300 account must be zero, with no balances, for the support activity within a fund.

Between funds support activity shall result in a credit balance for the fund providing the support, with a negative amount recorded. The fund receiving the support shall record a debit balance with a positive amount.

Therefore, a balance for the 7300 account at the fund level may occur, but only for the amount of between-fund support. Specific rules applicable for between-fund support are as follows:

1. Only one object account within the 735X series is to be used for indirect support charges between funds.
2. Objects within the 735X series used for direct support charges between funds shall not be the same as those objects used for within-fund direct support charges.
3. A fund receiving 735X support charges may budget an amount within the 735X series sufficient only for between-fund support charges.
4. The General Fund providing 735X support to another fund may budget a negative amount in the 735X account(s) and adjust the budget for major account 7000.

5. Direct support or indirect support shall not be charged between funds, except for the following:
 - a. Adult Education Fund (may be charged)
 - b. Cafeteria Fund (may be charged)
 - c. Child Development Fund (may be charged)
6. Indirect support provided to the Adult Education, Cafeteria, and Child Development funds shall be computed by applying the applicable fiscal year's approved FWCF indirect cost rate to the total expenditures of the Adult Education, Cafeteria, and Child Development funds, Objects 1000 through 6000. Payments shall result in a credit to cash or liabilities and a debit to the indirect support 735X object within the fund receiving indirect support.
7. Administrative expenses incurred by the General Fund in calculating and collecting developers' fees may be charged to the Capital Facilities Account Fund. The administrative expense shall not exceed 3 percent of the fees collected during the period (*Education Code* Section 17620[a][1][c][5]).
8. Indirect support charges made by the General Fund shall result in a debit to cash or receivables and a credit to the indirect support 735X object within an indirect support holding program in the General Fund.

The indirect support holding program is to be maintained in the General Fund, with a negative balance equal to the amount of indirect support charged to other funds. This negative amount, combined with positive amounts within the general support programs, will produce a net undistributed indirect support cost that must be used for General Fund indirect support distributions.

